

## PROPERTY TAXES

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### REVENUES

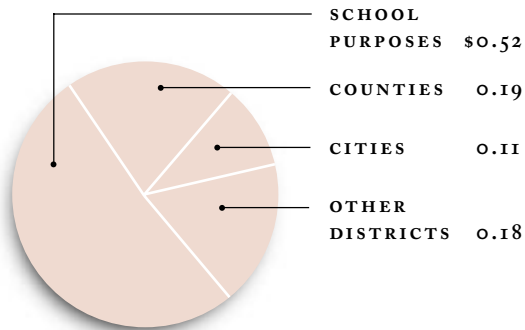
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California property tax levies for fiscal year 2001-02 totaled \$27.16 billion, an increase of 9.7 percent from the previous year's total of \$24.77 billion. County-assessed property values increased \$184 billion during 2001-02 to reach \$2.69 trillion for the 2002-03 tax year.

In May 2002, the Board set the values of state-assessed properties, primarily privately owned public utilities and railroads, at \$65.17 billion for the 2002-03 roll. This \$1.83 billion increase from the 2001-02 roll values will produce an estimated \$717 million in local property tax revenues for the state's 58 counties in 2002-03.

For detailed property tax information, please see the [Appendix](#), pages A-4 through A-22.

2001-02  
GENERAL PROPERTY TAX DOLLAR  
AVERAGE STATE ALLOCATION



### PROGRAMS

The Board of Equalization oversees the assessment practices of the state's 58 county assessors, who are charged with establishing values for approximately 12 million properties each year. In addition, the Board assesses the property of regulated railroads and specified public utilities, and assesses and collects the private railroad car tax and the timber yield tax.

#### General Property Taxes

Higher home prices and high real estate sales volume produced an 7.3 percent increase in county-assessed property values for the 2002-03 roll, despite declines in new construction. The increase was less than the previous year's gain of 9.4 percent, but still very strong growth by historical standards. For the decade of the 1990s, county-assessed property values increased an average of 4.7 percent per year, ranging from a low of 0.7 percent to a high of 11.9 percent.

Proposition 13, passed by California voters in 1978, limits property tax to one percent of fair

market value, with limited exceptions. In general, a county can reappraise real property at current market value only when there is a change in ownership or new construction. Otherwise, Proposition 13 limits annual increases in an individual property's value to the previous year's California Consumer Price Index for all items, up to a cap of two percent.

#### State-Assessed Properties

In accordance with article XIII, section 19 of the California Constitution, the Board of Equalization assesses certain public utility and other specified properties and allocates the assessed values among the counties where the properties are physically located. Each county taxes the allocated value of state-assessed properties at the same rate as locally assessed properties.

State-assessed properties include

- Pipelines, flumes, canals, ditches, and aqueducts lying within two or more counties.
- Property (except franchises) owned or used by regulated railway, telegraph, or telephone companies; railroad car companies operating on railways in the state; and companies transmitting or selling gas or electricity.

#### Private Railroad Car Tax

Owners of private railcars pay the private railroad car tax on railcars operated in California. For 2002-03, the Board billed 252 car companies for taxes totaling \$6.48 million.

The Board's 2002-03 valuation of railroad cars reflects the application of a 71.72 percent assessment ratio, as required by the Federal Railroad Revitalization and Regulatory Reform

Act. Revenues from the private railroad car tax, deposited in the state's General Fund, totaled \$6.38 million in fiscal year 2001-02.

Additional information on the private railroad car tax can be found in the [Appendix](#) on pages A-21 and A-22 and in the [foldout chart](#) inside the back cover of this report.

### Timber Yield Tax

Timber owners pay the 2.9 percent timber yield tax based on the immediate harvest value of trees harvested for wood products. Revenues are returned to the counties where the timber was harvested. Calendar year 2001 revenues totaled \$19.66 million.

Timber harvest volume declined 18.5 percent in 2001, to 1.60 billion board feet. The decrease in harvest volume combined with lower prices caused the total value for the year's harvest to drop 36.6 percent, to \$576 million. The number of registered timber owners

continued to decrease. As of June 30, 2002, there were 2,252 active program registrants, compared with 2,463 timber owners registered at the end of 2000-01. Thirty timber owners paid approximately 81 percent of the tax in 2001.

Additional information on the timber yield tax can be found in the Appendix on page [A-20](#) and in the [foldout chart](#) inside the back cover of this report.

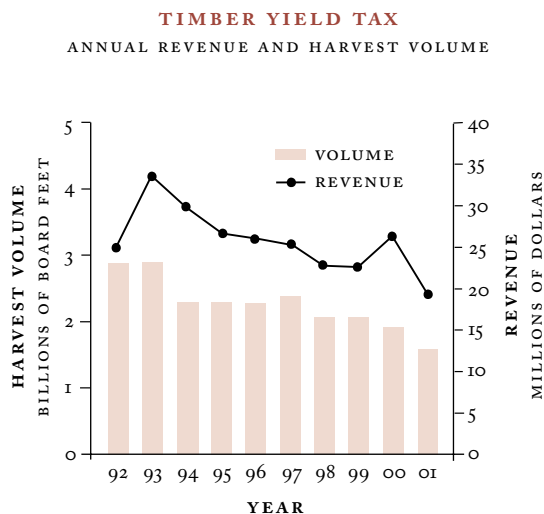
## OPERATIONS

### Policy, Planning, and Standards Division

The Policy, Planning, and Standards Division develops property tax assessment policies and informational materials to guide county assessors and assessment appeals boards. The Division provides technical expertise and guidance to assessors, the Legislature, and others concerned with property tax assessment matters, and ensures that the content of property tax forms is uniform throughout the state. The Division is also responsible for maintaining all property tax rate area maps in California.

In 2001-02, Policy, Planning, and Standards Division staff provided the following services to local governments and the public:

- Revised four sections of the Assessors' Handbook to reflect current, annually collected data: *Standard Form List* (AH 222), *Residential Building Costs* (AH 531), *Rural Building Costs* (AH 534), and *Equipment Index and Percent Good Factors* (AH 581).



- Updated various sections of the *Assessors' Handbook* to reflect statutory and regulatory changes, including *Welfare, Church, and Religious Exemptions* (AH 267) and *Basic Appraisal* (AH 501).
- Revised various sections of the *Assessors' Handbook*, including *Assessment of Manufactured Homes and Parks* (AH 511) and *Assessment of Vessels* (AH 576).
- Issued 100 advisory *Letters to Assessors*.
- Responded by telephone to more than 2,800 outside inquiries regarding property tax matters, prepared 56 written responses, and responded to 95 inquiries from users of the Board's website.
- Reviewed 5.26 million homeowners' exemption claims, revealing nearly 24,800 duplicate claims and saving \$1.86 million in state tax subvention payments to counties.
- Reviewed 13,900 welfare exemption claims involving more than 24,165 properties.
- Conducted 57 formal appraisal courses and workshops attended by more than 1,520 students.
- Sent more than 16,900 questionnaires to legal entities, including corporations and partnerships, resulting in the reassessment of 3,408 parcels owned by 247 legal entities.
- Continued to maintain maps of more than 11,000 revenue district boundaries that encompass 58,969 tax rate areas, helping to ensure the proper allocation of local tax revenue to counties, cities, and special tax districts.

### Valuation Division

The Valuation Division provides the elected Board Members with value indicators for state-assessed properties, described on [page 14](#), and

allocates the Board-determined value of those properties to the counties where the properties are located. The Division also audits the financial records of utility and transportation companies for property tax purposes and has responsibility for the valuation of private railroad cars located in California. Since 1977, Valuation Division audits have resulted in adjusted property tax assessments of more than \$10.37 billion, yielding additional property tax revenue for local governments.

### County Property Tax Division

The County Property Tax Division conducts periodic Assessment Practices Surveys of each county assessor's office and issues resulting reports to state and local officials. The Division also performs supplemental surveys of larger counties to determine whether the assessors have complied with recommendations made in the survey reports.

In 2001-02, the Board issued Division-prepared survey reports for the counties of Calaveras, Del Norte, Imperial, Lake, Lassen, Madera, Mono, Orange, Plumas, Santa Cruz, Shasta, Solano, and Stanislaus, and a supplemental survey report for Contra Costa County. Copies of the reports are found in the "[Property Taxes](#)" section of the Board's website: [www.boe.ca.gov](http://www.boe.ca.gov).

The Division also collects and administers the state's timber yield tax, described on [page 15](#). Timber Tax Section staff gather data on timber harvest sales and develop timber harvest value schedules for consideration by the Board's Timber Advisory Committee and approval by the Board Members. They also register timber owners who harvest timber, and collect the timber yield tax.



## APPEALS

Local assessment appeals boards review appeals of county-assessed property values. The elected Members of the Board hear appeals of state-assessed property values, appeals filed under the Timber Yield Tax and Private Railroad Car Tax Laws, appeals of welfare exemption denials, and appeals made by local governments concerning assessments of properties they own outside their boundaries. For information regarding appeals filed with the Board in 2001-02, see “Appeals,” on [page 45](#).

## COURT DECISIONS

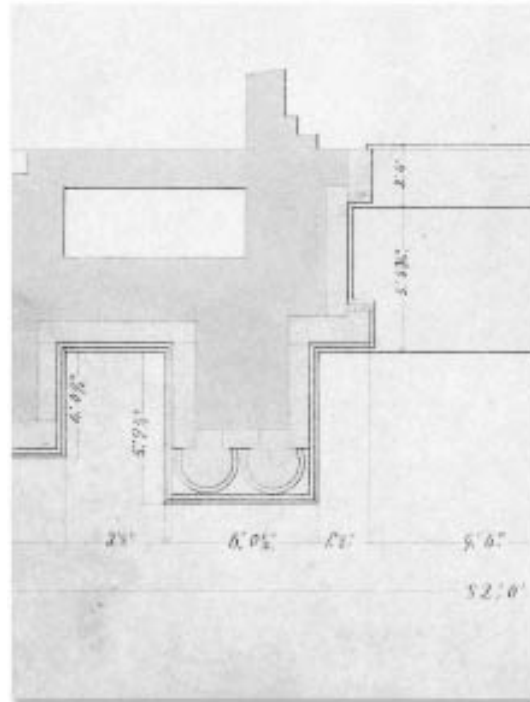
### Valuation of Low Income Housing

Under Property Tax Rule 8, *The Income Approach to Value*, the cost approach is unreliable when valuing Section 515 housing that is subject to restrictions on income unrelated to cost. Such property should be valued by capitalizing the property’s income with a rate derived through the “band-of-investment method” under Rule 8, and the debt component should reflect the subsidized one-percent effective interest rate.

*Maples v. Kern County Assessment Appeals Board* (2001) 96 Cal.App.4th 1007

### Band-of-Investment Calculation for Low Income Housing

Consistent with the Board’s advice in *Letter to Assessors No. 98/51*, an investor’s effective interest rate should be used for the rate of debt in a “band-of-investment” calculation when valuing Section 515 property. Ignoring the subsidized interest rate actually paid on the



debt portion of the loan ignores the realities of the marketplace and would distort the fair market value of the property and be inconsistent with the requirements of Property Tax Rule 8, subdivision (g)(2).

*Carl A. Bontrager v. Assessment Appeals Board of Siskiyou County* (2001) 97 Cal.App.4th 325

### Title to Overhead Property Vested in Government

Title to the company’s supplies, expensed equipment, and office partitions, recorded in indirect accounts as “overhead property,” clearly passed to the U.S. government because the government reimbursed the company for its acquisition costs. The government-owned property was therefore not subject to property taxation. The decision disagrees with

*TRW Space & Defense v. County of Los Angeles* (1996) 50 Cal.App.4th 1703, in which the overhead property was determined to be owned by the company (contractor) and was taxable. It is consistent with *Aerospace Corp. v. State Board of Equalization* (1990) 218 Cal.App.3d 1300, which held that title to overhead property passed to the government and was thus exempt, based on the “government purpose” of the company’s acquisition.

*Hughes Aircraft Co. v. County of Orange* (2002) 96 Cal.App.4th 540

#### **Property Tax Valuation of Oil-Processing Facility**

The company’s offshore oil and gas leaseholds and onshore oil-processing facility constituted one appraisal unit under Property Tax Rule 468, *Oil and Gas Producing Properties* and should have been valued accordingly. The oil and gas leaseholds and the onshore oil-processing facility must be valued as a single appraisal unit because of their common ownership, county land use restrictions that functionally integrated the oil and gas leaseholds and the processing facility, and the connections among the components by pipelines and electrical cables. The decision in this case reaffirms the validity of Rule 468, which requires the assessor to take county land use restrictions into consideration when valuing oil and gas producing properties when the restrictions significantly diminish the properties’ economic viability.

*Exxon Mobil Corporation v. County of Santa Barbara* (2002) 92 Cal.App.4th 1347

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### **LEGISLATION**

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#### **Employee-Owned Hand Tools**

Increases the property tax exemption for employee-owned hand tools from \$20,000 to \$50,000.

*Assembly Bill 136, Chapter 161, Statutes of 2001; effective August 9, 2001*

#### **Seismic Safety New Construction Exclusion**

This Board-sponsored bill

- Changes the claim filing requirements to six months after the date of completion.
- For the 15-year new construction exclusion for masonry buildings, provides that failure to file a certificate of compliance by the filing deadline is considered a waiver of the exclusion for that year only.
- Updates the definition of a qualifying seismic safety improvement.

*Assembly Bill 184, Chapter 330, Statutes of 2001; effective September 25, 2001*

#### **Assessment Appeal Filing Deadline**

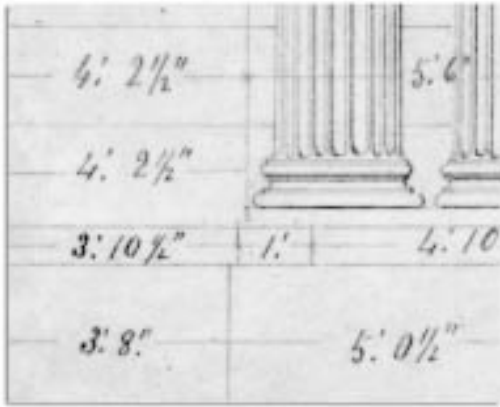
Extends the final assessment appeal filing date from September 15 to November 30 in any county where the assessor does not send real property value notices to taxpayers by August 1.

*Assembly Bill 645, Chapter 238, Statutes of 2001; effective January 1, 2002*

#### **Nonmandatory Audits—Appeal Rights**

Extends to taxpayers who are subject to nonmandatory audits the same appeal rights currently provided to taxpayers who are subject to mandatory audits.

*Assembly Bill 645, Chapter 238, Statutes of 2001; effective January 1, 2002*



#### **Private Railroad Car and Timber Yield Tax—Relief of Interest**

Among other things, expands the circumstances under which relief of interest may be granted due to an unreasonable error or delay by the Board, for the private railroad car and timber yield tax. Board-sponsored.

*Assembly Bill 1123, Chapter 251, Statutes of 2001; effective January 1, 2002*

#### **Manufactured Home Parks**

Applies to resident-owned mobilehome parks previously granted a change in ownership exclusion. Requires an assessor who has failed to timely reappraise subsequent pro rata changes in ownership to correct the assessment from the January 1, 2002, lien date forward. Relieves mobilehome park residents of liability for related escape assessments.

*Assembly Bill 1457, Chapter 772, Statutes of 2001; effective January 1, 2002*

#### **Logging Dollies, Pole or Pipe Dollies, and Trailer Buses**

Clarifies that specified equipment issued a Department of Motor Vehicles identification

plate is exempt from personal property taxation. Clarifies that the exemption does not apply to logging dollies with a valid identification plate that are used exclusively off highway.

*Assembly Bill 1472, Chapter 826, Statutes of 2001; effective January 1, 2002*

#### **Welfare Exemption—Property in Its Natural State**

Extends the sunset date of the property tax exemption for property in its natural state, from January 1, 2002, to January 1, 2013.

*Senate Bill 198, Chapter 533, Statutes of 2001; effective October 5, 2001*

#### **Welfare Exemption—Public Parks Leased by Nonprofit Organization**

Exempts, under the welfare exemption, a leasehold interest in a public park donated to a charitable foundation, when the foundation will acquire ownership of the park on or before the end of the lease.

*Senate Bill 882, Chapter 609, Statutes of 2001; effective October 9, 2001*

#### **Board-Sponsored Technical and Housekeeping Measure**

##### **TIMBERLAND PRODUCTION ZONE—TAX RECOUPMENT FEE**

- For property removed from a Timberland Production Zone, specifies a 60-day period after the mailing date of the fee notice for appeal of valuation of the property for purposes of the tax recoupment fee.
- Specifies that the tax recoupment fee is due based upon the date the notice is “mailed” rather than “received.”

**STATUTE OF LIMITATION—SUPPLEMENTAL ASSESSMENTS**

- Extends the number of years open to supplemental assessment from six to eight when the assessor levies a penalty for concealment of personal property.
- Provides additional cleanup language related to restoring the statutes of limitation on escape assessments and associated supplemental assessments.

**DISASTER RELIEF**

Revises the provisions where a property's assessed value may be reduced after a disaster:

- Permits assessor-initiated reductions generally if the board of supervisors approves.
- Provides a 12-month period for filing a related claim for reassessment, an increase from the former 60-day period.
- Provides a six-month period for filing an appeal of a post-disaster value determination, an increase from the former 14-day period.
- Increases the disaster relief eligibility threshold from \$5,000 in damage to \$10,000 in damage.

**DISABLED VETERANS' EXEMPTION**

For the disabled veterans' exemption low-income threshold, changes the period for measuring inflation increases and clarifies that increases are to be compounded annually.

**STATE ASSESSEE PENALTY CALCULATION**

Clarifies the basis for calculating the penalty for failure to report information timely.

**CONFIDENTIALITY OF STATE ASSESSEE INFORMATION**

Clarifies that county assessors and auditors must maintain the confidentiality of state assessee information provided by the Board.

**ASSESSMENT APPEALS—EXCHANGE OF INFORMATION**

Establishes new timeframes for the prehearing exchange of information and response, specifies that postmarks will be used in determining whether deadlines are met, and requires parties to use adequate means of delivery to complete the exchange process at least ten days before the hearing.

**MANUFACTURED HOMES—CHANGE IN OWNERSHIP PROVISIONS**

Clarifies that various change in ownership provisions apply to manufactured homes.

**PRIVATE RAILROAD CAR APPEALS**

Eliminates the need to file a declaration of intent to petition for reassessment of private railroad cars.

*Senate Bill 1181, Chapter 407, Statutes of 2001; effective January 1, 2002*

**Property Tax Omnibus Bill—California Association of Clerks and Election Officials**

Includes California Association of Clerks and Election Officials-sponsored language to clarify which provisions related to filing an assessment appeal apply to Los Angeles County and to modify an incorrect reference to supplemental assessments.

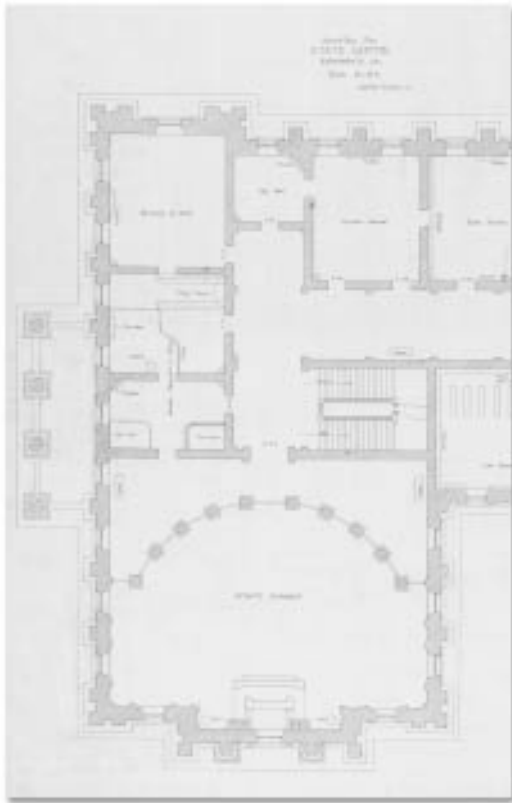
*Senate Bill 1182, Chapter 744, Statutes of 2001; effective January 1, 2002*

**Property Tax Omnibus Bill—California Assessors' Association**

This bill contains California Assessors' Association-sponsored provisions:

- **Parent-Child Exclusion—Claim Signatures.**  
Eliminates the need for the transferor to sign





the parent-child change in ownership exclusion claim form and requires only one transferee to sign the form.

- **Base Year Value Transfers.** Allows a taxpayer whose home was destroyed in a disaster to qualify for a base year value transfer under Propositions 60, 90, or 110 even if the government did not declare the event a disaster.
- **Statute of Limitations—Escape Assessments** (see Senate Bill 1181). Extends from six years to eight years the number of tax years subject to escape assessment when the assessor applies a penalty for willful concealment of tangible personal property. Provides

additional cleanup language related to restoring the statutes of limitation on escape assessments and associated supplemental assessments.

- **Contiguous Parcels—Combined Assessment.** Changes the value thresholds for allowing combined assessment of two or more contiguous parcels under the same ownership but located in different tax rate areas.

*Senate Bill 1184, Chapter 613, Statutes of 2001; effective January 1, 2002*

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## REGULATIONS

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### Taxable Possessory Interests

Rule 21, *Taxable Possessory Interests—Valuation*, was amended and Rules 23, 24, 25, and 26 were combined into Rule 21 and repealed, in order to update and implement the holding in *American Airlines, Inc. v. County of Los Angeles* (1976) 65 Cal.App.3d 325, and to clarify terms. These rule amendments eliminate confusion and promote consistency and uniformity among counties in the valuation of taxable possessory interests in publicly owned land leased by private entities.

*Title 18, California Code of Regulations, sections 21, 23, 24, 25 and 26, effective July 11, 2002*

Rule 29, *Possessory Interests in Taxable Government-Owned Real Property*, was added to specify how county assessors should implement the provisions of section 11(f) of article XIII of the California Constitution.

*Title 18, California Code of Regulations, section 29; effective January 10, 2002*

### Fixtures

Rule 122.5, *Fixtures*, was amended to add the example of “wind machines permanently annexed to the land” as a classification under fixtures, since the machines meet the rule’s criteria for physical annexation, constructive annexation, and intent.

*Title 18, California Code of Regulations, section 122.5; effective February 6, 2002*

### Aircraft

Rule 138, *Exemption for Aircraft Being Repaired, Overhauled, Modified or Serviced*, was adopted to make clear that the exemption in Revenue and Taxation Code section 220 applies to certificated aircraft out of revenue service, but located in California under contract for repair, overhaul, maintenance, or service, when the aircraft are serviced in accordance with FAA requirements. The rule also clarifies that the exempt aircraft are not included in the allocation calculations of section 1152 and Rule 202.

*Title 18, California Code of Regulations, section 138; effective May 20, 2002*

### Disaster Relief Related to September 11, 2001

Rule 139, *Restricted Access as Damage Eligible for Reassessment Relief Pursuant to Revenue and Taxation Code section 170*, was adopted to clarify that the term “damage or destruction” used in section 170 includes “restricted access” to property caused by a misfortune or calamity, when that restricted access results in a reduction

in the property’s value. The amendment clarifies that reassessment relief prescribed by section 170 and local ordinance should be provided to property, such as possessory interests at airports, that suffered a decline in value due to government-imposed restricted access during a state of emergency like that of September 11, 2001.

*Title 18, California Code of Regulations, section 139; effective June 15, 2002*

### Satellites

Rule 206, *Assessment of Artificial Satellites*, interprets section 14 of article XIII of the California Constitution and section 201 of the Revenue and Taxation Code to clarify that artificial satellites permanently located in outer space do not have a property tax situs in this state and are therefore exempt from property taxation due to lack of assessment jurisdiction.

*Title 18, California Code of Regulations, section 206; effective January 1, 2002*

### Assessment Roll Procedures

Rule 252, *Content of Assessment Roll*, was amended to update assessment roll procedures and to conform to the items that must be enrolled according to the statute. The amendments also provide appropriate guidance consistent with current processing and recordkeeping technology.

Rule 254, *Use of Board-Prepared Roll as Unextended Roll*, was amended to conform the terminology to current processing and

recordkeeping technology and to specify that property data is maintained electronically in “sections” rather than manually in “volumes.”

Rule 255, *Enrollment of Supplemental Assessments*, was adopted to specify the information and procedures required for enrollment of supplemental assessments, and to specify how the auditor will apply the current year’s tax rate and the proration adjustment of the taxes due. The rule also addresses the limitations periods for making supplemental assessments.

Rule 261, *Penalties; Form and Manner of Entry*, was amended to conform the rule to statutory requirements for penalties, to update the manner of electronically processing penalty entries, and to prescribe procedures for enrollment of penalties. The amendments also updated the rule by substituting electronic processing terminology for manual processing terminology.

Rule 263, *Roll Corrections*, was added to provide authority for roll corrections, implement Revenue and Taxation Code section 4831, and require the assessor to follow specified procedures for roll corrections.

Rule 264, *Base Year Value Corrections*, was added to provide authority for and specify the time and manner for base year value corrections under Revenue and Taxation Code section 51.5. The rule also interprets and implements subdivision (b) of section 51.5 to allow a four-year period after the enrollment of the

base year value for correcting errors and omissions involving the exercise of value judgment.

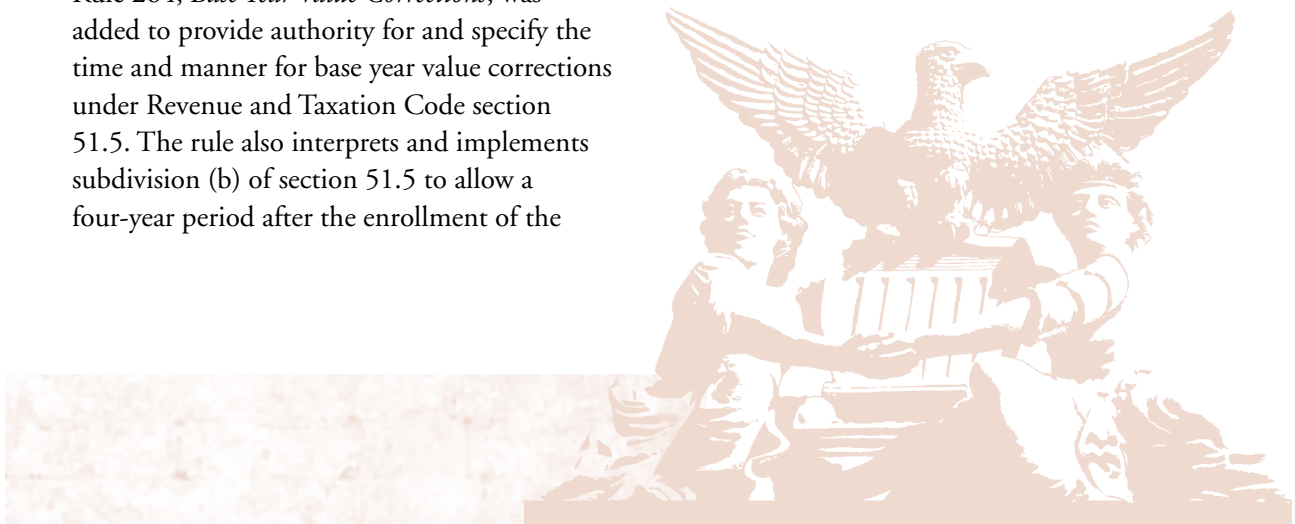
Rule 265, *Board Ordered Roll Changes*, was added to implement Revenue and Taxation Code section 1614, which requires the clerk of the assessment appeals board or county board of equalization to transmit roll changes made by the county board. The rule also specifies that the auditor shall promptly correct the roll upon receipt of the changes.

*Title 18, California Code of Regulations, sections 252, 254, 255, 261, 263, 264 and 265; effective July 11, 2002*

Rule 253, *Machine Prepared Roll Controls*, Rule 256, *Tape Storage of Roll Data*, and Rule 262, *Indexing Assessments of Escaped Property*, were all repealed because they prescribe procedures that reflect outdated roll-processing technology.

Rule 304, *Location of Local Roll for Inspection*, was renumbered as Rule 266, *Location of Local Roll for Inspection*.

*Title 18, California Code of Regulations, sections 253, 256, and 262 repealed; section 304 renumbered as section 266; effective July 11, 2002*



**Application for Local Assessment Equalization**

Rule 305.3, *Application for Equalization under Revenue and Taxation Code section 469*, was amended to delete references to the minimum value threshold for mandatory audits in subsection (b)(1) and Examples 1 and 2, and to add subsection (b)(7) to define the phrase “property that has been previously equalized for the year in question.”

*Title 18, California Code of Regulations, section 305.3; effective May 17, 2002*

**Electric Generation Facilities**

Rule 905, *Assessment of Electric Generation Facilities*, was amended to clarify, implement, interpret and make specific the law relating to the Board’s jurisdiction, under article XIII, section 19 of the California Constitution, to assess certain electric generation facilities owned by companies transmitting or selling electricity. Amendments were necessary to accurately reflect the proper interpretation of the Constitution and recent statutory changes and to ensure statewide accuracy, uniformity, and consistency following the restructuring of the electrical energy industry.

*Title 18, California Code of Regulations, section 905; effective June 13, 2002*